



The 45-Year Record of Bullion Prices

A Monday Morning Musing from Mickey the Mercenary Geologist

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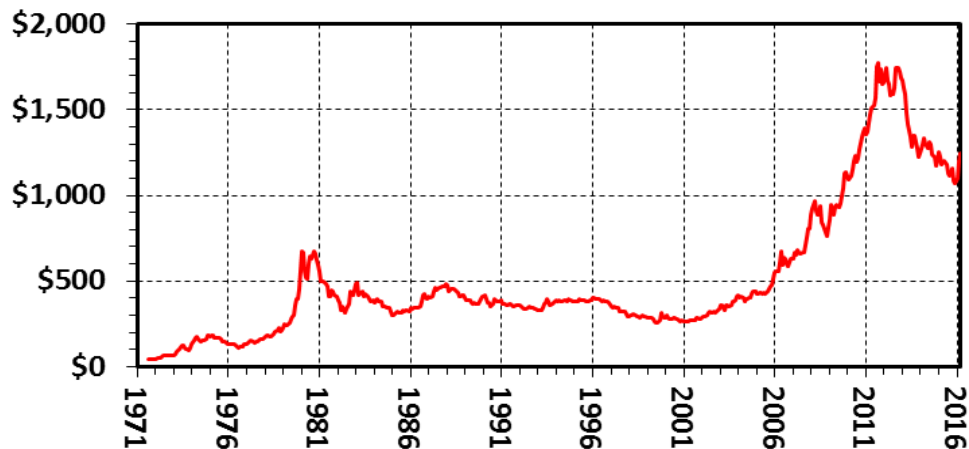
In last week's musing, I documented the history of gold, silver, and the US dollar from the establishment of a national monetary system in 1792 until abandonment of the gold standard in 1971 ([Mercenary Musing, April 25, 2016](#)).

Today, I will document the modern-day paradigm that began in August of 1971 when Nixon ended conversion of US dollars into gold by foreign governments. Two additional devaluations of the greenback followed in 1972 and 1973.

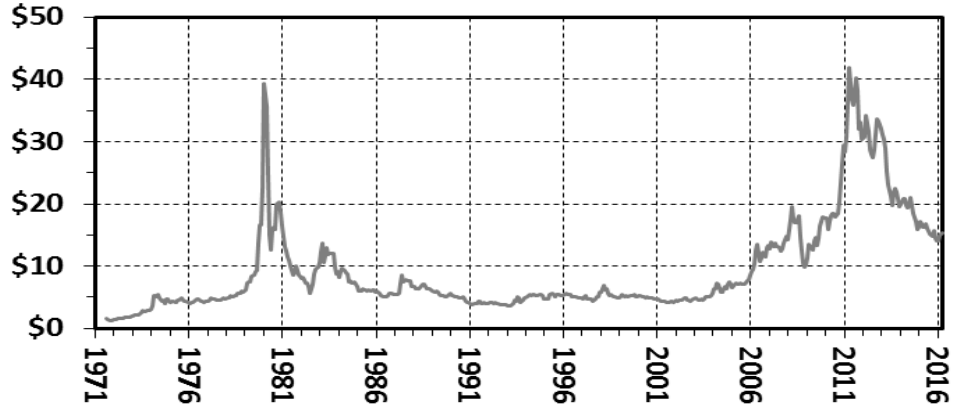
From that point, US dollar prices of gold and silver have floated freely in all precious metals markets including physical bullion, paper instruments, and derivatives such as futures and options.

Here are monthly average price charts for each metal and the gold-silver ratio since August 1971:

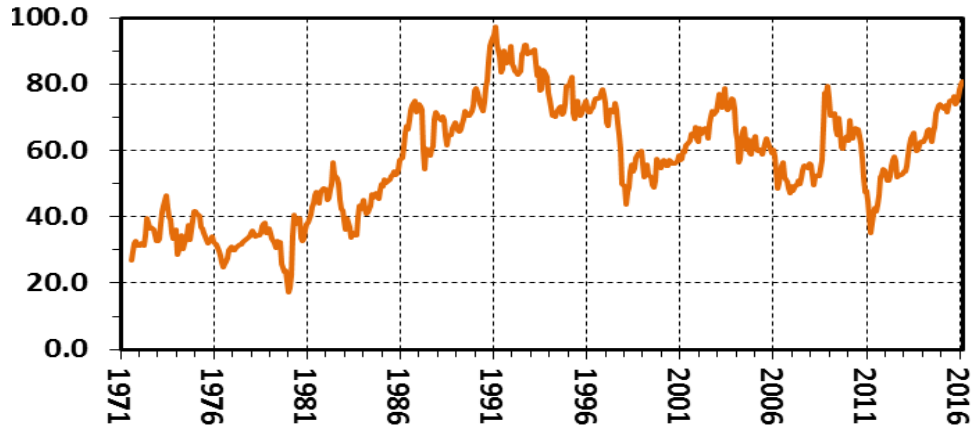
Gold



Silver



Au : Ag Ratio



Let's look at the 45-year record of bullion prices and the ratio history in detail. Note the ratio shows strong volatility and constant movement in the relative prices of the two metals.

The official price of gold increased with devaluations of the US dollar in August 1971, August 1972, and March 1973. With the last decree, Bretton Woods was finally scuttled and the US dollar, other major world currencies, and gold were freely floated against each other.

Silver rose with these devaluations at about the same rate as gold. Both metals more than doubled from 1971 to 1973 and the gold-silver ratio averaged about 30 for each of these years.

The Arab-Israeli war of 1973 and the subsequent OPEC oil embargo, rampant inflation, and recession caused precious metals to soar in 1974. Gold averaged nearly \$160/oz over two years while silver passed \$4.00 and stuck above that benchmark for the next 17 years. Ratios in 1974-1975 climbed into the upper 30s.

However, gold was overbought and corrected in late 1975. It did not recover for a year and a half, and the gold-silver ratio fell drastically into the mid-to upper 20s.

Gold and silver climbed steadily in 1978 and into 1979 when both metals went exponential in the late summer and fall. They peaked in late January 1980 with gold's daily closing high of \$850/oz standing for 29 years while silver's end-of-day close at \$49.45/oz a has never been exceeded.

These valuations were parabolic bubbles with gold being driven by the Iran hostage crisis, the Soviet invasion of Afghanistan, another OPEC oil embargo, and double-digit inflation. Silver was carried along but was also fueled by the Hunt Brothers' speculative attempt to corner that market.

When silver rocketed in the first two months of 1980, the gold-silver ratio averaged less than 20:1. This remains the only time the ratio has been less than 20 since the gold standard was abandoned.

The Hunt Brothers' bubble burst in March when they failed to meet margin calls; the silver price plummeted, briefly going to below \$6.00/oz in June 1982 as Au:Ag soared to 56. But by mid-1983, silver had more than doubled and the always volatile ratio was back into the mid-30s.

A bear market for metals soon followed: gold declined from the high \$400s in early 1983 into the low \$300s two years later while silver dropped by over 60% in less than three years. Ratios rose from the low 40s in late 1983 to the low 70s by late 1986.

Gold recovered into the low to upper \$400 range and silver was trading for \$6.00 to \$7.00 in 1987 and 1988; the ratio remained mostly in the 60s. Interestingly, gold did not react to the US stock market crash in October 1987, but silver lost 12% in a month.

Both metals dipped in early 1989, with gold going below \$400/oz once again. It would remain weak for the next nine years, mostly in the mid-\$300 range.

Meanwhile, the gold-silver ratio soared on a severe decline in silver, which traded mostly under \$5.00/oz from mid-1990 to early 1994 and below \$4.00 from July 1992 thru April of 1993. The above-ground stockpiles of silver vastly exceeded industrial demand during this period.

The highly anomalous Au:Ag ratios in the 80s and 90s basically held for three years, from September 1990 thru November of 1993, reaching a zenith of 97.3 for February 1991.

This lofty level of ratios above 80 is so rare that it has only occurred twice again: in May 1995 and again last month.

Gold remained flat during the mid-1990s at the low to mid-\$300 levels with silver around \$5.00 an ounce. The Bre-X scandal of May 1997, which ravaged the Vancouver Stock Exchange and eventually led to its demise, had no discernible effect on precious metals.

The gold-silver ratio remained high but gradually declined into the low 70s and then to 60 in November of 1997.

However, a month later, in December 1997, the ratio dropped below 50:1 when monthly gold fell below \$300/oz for the first time since August of 1979. This was part of a larger bear cycle led by oil that soon spread to other hard commodities. The catalyst was collapse of the Thai currency with severe economic problems affecting other emerging markets in the region. They in turn infected developed countries worldwide and financial crisis became known as the "Asian Contagion".

Gold reached its nadir of \$260 in April of 2001 and would mostly remain below \$300/oz until April 2002. During this period of universally low commodities prices, silver averaged \$5.00. The ratio ranged from

below 50 at the beginning of the bear market but increased gradually to the mid-60s when gold came out of the doldrums in mid-2002.

The biggest bull market in the history of precious metals ensued. Gold soared, from \$303 in April 2002 to an all-time high of \$1895 an ounce on September 6, 2011. But note that it had taken 29 years to exceed its previous high of \$850/oz in early 1980.

Other commodities followed gold's bullish lead in 2004 and 2005.

During its bull run, gold seldom corrected or even took a break except during the global economic crisis from August 2008 to January 2009.

As is the common scenario, silver lagged during the first leg of the bull market; there was a big uptick in the ratio into the 70s for over a year. Once silver prices caught up in late 2003, its run was impressive, taking the monthly average price to over \$19.50/oz and the ratio down to the high 40s and low 50s range.

After all-time highs were reached in nearly every commodity in the first half of 2008, the international banking crisis took markets down starting in August.

Silver is always more volatile in rapidly rising or declining markets, and this was especially evident during the bottom in late October and early November. When gold closed at \$720 on October 23, silver bottomed at \$8.88, for a one-day ratio of 81.1. The ratio averaged nearly 78 for Q4 of 2008.

That said, both metals spiked downward but recovered quickly led by safe haven buying of gold. Silver coat-tailed gold and the ratio soon dropped into the 60s.

The yellow metal exceeded \$1000 in September 2010 and continued on. Silver soared on an exponential run and the ratio declined without respite into 2011, reaching a low of 35 in April with silver averaging nearly \$42/oz for the month. Its highest daily close was on April 28 at \$48.70.

During that time, savvy investors traded most of their silver stash for real money (gold), knowing that exponential markets always go parabolic.

The run-up in gold, though consistent, was not nearly so dramatic. It reached its all-time high of \$1895 in September and averaged \$1772 for the month. Ratios were on their way up again when silver predictably stumbled. Subsequent to its spike in April, silver had lost 27% by year's end.

Beginning in late 2011, there was a vacillating market for both metals and the ratio stayed in the 50s range thru March of 2013. In April, the first in a series of corrections ended the 10-year bull market for precious metals. The usually volatile silver led the way on a percentage basis resulting in the gold-silver ratio going into the 60s.

By July, gold was trading in the upper \$1200 range and silver was around 20 bucks. Both metals continued to make lower lows and lower highs thru the end of 2015 when gold averaged \$1068/oz and silver was at \$14.05, for a five and a half year low.

The Au:Ag ratio has continued upward for the past five years with the ongoing weakness in the silver market. By October of 2014, it was in the low 70s and this March topped at 80.8, for a 21-year high.

Gold ended 2015 at \$1062/oz, and then had the predictable January rally with an \$1112 close. It continued to rally thru mid-March, and since has since consolidated in the low to mid-\$1200 range. This

three-month run-up has reversed the aforementioned 4.5 year trend and suggests the bear market for gold is over.

In addition, gold exceeded its 200-day moving average in early February and its recent consolidation is well above this bullish benchmark.

Meanwhile, silver underperformed before rallying over the past two weeks, reversing a five-year trend of steadily-increasing gold-silver ratios. Average April prices were \$1243 for gold and \$16.02 for silver, giving a ratio of 77.6.

Along with the consolidation in the gold price, an increasingly stronger silver price lends further credence that market sentiment for precious metals is turning positive. Only time will tell, but there are lines of evidence that suggest better prices for precious metals lie ahead.

I have written a lot of words documenting the record of gold and silver prices and ratios over the nearly 45 years since the United States (and therefore, the world) abandoned the gold standard.

But what are the longer-term ramifications of a monetary system without backing?

From that juncture, we were left with nothing but a basket of fiat currencies posing as surrogates for real money. History has proven time and time again that all governments, whether city-states, countries, or empires, eventually debase their currencies to worthlessness and the world economic system lapses into chaos.

We nearly witnessed such a scenario in the late summer and fall of 2008 but somehow, the banksters saved the system until a future day. Their solution, however, spawned a current world economy saddled by unserviceable debt, serial insolvencies, negative interest rates, deflation, and debased currencies.

Many of us realize the present world economic paradigm is unsustainable and collapse is inevitable. Some pundits pontificate that this economic Armageddon is imminent.

But folks, I am here to tell you that *no one* can predict when it will happen. Those that try seem mere analogues to fundamental religious zealots who set serial dates for the end of the world.

As you can gather, it is difficult for me to put much stock in their perma-gloom-and-doom dogma.

That said, here's what I know: gold is real money and owning it will preserve your wealth no matter what economic catastrophe is laid upon us. I've got my stash and trust that you do, too.

P.S. Better have guns and gas and goods to go along with that gold.

Ciao for now,

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Acknowledgment: Steve Sweeney is the research assistant for MercenaryGeologist.com.

The [Mercenary Geologist Michael S. "Mickey" Fulp](http://MercenaryGeologist.com) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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